

August 6, 2003

Mr. Tom Carter
Power Operations Manager
Western Area Power Administration
Sierra Nevada Region
114 Parkshore Drive
Folsom, CA 95630-4710



Subject: Western's Post 2004 Operating Structure

Dear Mr. Carter:

The Modesto Irrigation District (Modesto) respectfully submits the following comments in response to the Western Area Power Administration (Western) Sierra Nevada Region Federal Register Notice dated June 12, 2003 (FR Doc. 03-1585) regarding post-2004 operating decisions (the Notice).

Modesto serves 92,000 electric customers within a 160 square mile area encompassing parts of San Joaquin and Stanislaus Counties. Modesto is a customer of Western by virtue of being a 21% shareholder of capacity rights on the California-Oregon Transmission Project (COTP) and having a 5 Megawatt allocation of power from the Central Valley Project.

Within the Notice, four post 2004 operating structures are identified and discussed by Western as potential options. These options include the following:

- 1) The no action alternative;
- 2) Executing a Transmission Control Agreement (TCA) and becoming a CAISO Participating Transmission Owner;
- 3) Executing a sub-control agreement with CAISO similar to its MSS concept; or
- 4) Forming a WECC/NERC certified control area (FCA) with the US Department of Interior, Bureau of Reclamation generation and load, and certain other generation and load within the proposed control area boundary.

As announced in the Notice, Western's final decision on the four alternatives will be judged against five criteria. These criteria include; Flexibility, Certainty, Durability, Operating Transparency and Cost Effectiveness. Modesto strongly agrees that these five criteria are fundamental considerations in selecting Western's post 2004 operating structure. The following discussion will emphasize and focus on our understanding of the criteria

1. The no action alternative: Modesto concurs that Western must choose an option other than the "no action" alternative. Otherwise, Western will default into one of the CAISO options without the benefit of rigorous analysis or informed decision making.
2. Executing a Transmission Control Agreement (TCA) and becoming a CAISO Participating Transmission Owner (PTO): Modesto strongly opposes the PTO option. Although Modesto supports Western's analysis of this operational alternative; the PTO option does not satisfy the fundamental criteria defined by Western for consideration of an alternative.
3. Executing a sub-control agreement with CAISO similar to its MSS concept: Modesto does not support this option, as it also does not satisfy the fundamental criteria defined by Western for consideration of an alternative.
4. Forming a WECC/NERC certified control area (FCA) with the US Department of Interior, Bureau of Reclamation generation and load, and certain other generation and load within the proposed control area boundary. Modesto strongly supports the concept of forming a FCA. In doing so, Modesto urges Western to consider Modesto's following comments in the decision making process, in concert with the five criteria defined by Western in the Federal Register.

MODESTO'S FUNDAMENTAL CONSIDERATIONS

A. Existing Contracts and Agreements Must Be Honored

Modesto strongly believes in honoring existing contracts. The existing contracts were negotiated in good faith to strike a balance of benefits and burdens; and provide MID with the ability to plan our resource needs and know our costs. We note that Western has demonstrated a history of honoring its contracts for power and transmission services and strongly urge this policy be adopted at the top of the list for the proposed Control Area.

B. Physical Firm Transmission Rights

Modesto urges Western to adopt a transmission policy, which allocates and utilizes Western's transmission system based upon physical firm transmission rights. Let each utility have local control over the best way to utilize their transmission assets

in order to meet load at a known cost. Such costs are spelled out in our existing Interconnection Agreements with Western and other transmission agreements. Modesto is directly connected to Western's transmission system, and as such, many of our transactions do not involve the use of the CAISO-controlled grid; therefore, Modesto is vehemently opposed to paying ISO take-out fees or other "new" fees under any of the post 2004 Operational Alternatives.

C. Durability (via contracts, not tariffs)

Modesto would support a Western Control Area that is formulated around the concept of durability. Under a Western Control Area employing "durability", business relationships with its customers would be based primarily on long-term contracts for rights and obligations versus frequently revised Tariffs. Western has always utilized this approach to doing business. We urge adoption for the proposed Control Area or sub-Control area.

D. Preservation of Local Control

The Modesto Irrigation District is a locally governed public entity, and as such, has provided cost effective and reliable service to its customers for over a century. Modesto believes that the FCA option based upon the five decision making factors defined by Western in the Federal Register, in conjunction with these fundamental considerations A through G, are consistent with preserving local control for the Modesto Irrigation District.

E. Governance for the Proposed Control Area

A Western Control Area must have a governance structure that causes the Control Area bureaucracy to be responsive to its customers. As a minimum the Control Area should have a Board of Directors or effective steering committee representing its broad customer base and an arbitration structure to resolve disputes between the Control Area and customers.

F. Western Control Area must be designed for cost effectiveness

Modesto advises Western to pursue the formation of a Federal Control Area or join another control area that supports and utilizes cost based rates, cost causation principles, transmission service based upon firm physical rights, and operating protocols based upon bilateral contracts. A Western Control Area formulated along these concepts is expected to beat or exceed the options offered by CAISO or a cost pass through type of RTO.

G. COTP in the Western Control Area

Modesto would support placement of the California Oregon Transmission Project (COTP) within a Western Control Area, not a Western Metered Subsystem. Such placement would involve Western assuming both operational and Path Operator status for the AC line. Under this placement Modesto assumes Western will negotiate in conjunction with TANC for a new "Coordinated Operating Agreement" that, at a minimum, preserves the existing line rating and curtailment structure.

H. Taking services from the Western Control Area

Although Modesto urges preservation of existing contracts, the proposed Western Control area will have to offer a variety of services for its customers. For customers wishing to take services from the Control Area, Modesto suggests that amendments to existing contracts for these services should not be used to change the existing terms unless absolutely necessary for the provision of the service.

In addition, an interconnected utility such as Modesto must continue to be interconnected to Western subject to existing contracts. The proposed Western Control Area must not attempt to impose standardized structures on interconnected utilities except to the extent to meet WECC criteria for a Control Area.

As an interconnected utility, Modesto should have the option to buy ancillary services from the Control Area under the Cost Effectiveness concept previously enunciated. Concurrently, if Modesto chooses, it should have the right to self provide its ancillary services, in full or partially, according to realistic metrics established by Western.

ADDITIONAL CONSIDERATIONS

i. Timing issue

WAPA only has a few months to accomplish what it is proposing. If it appears that the formation of a federal control area is not feasible in that time-frame, then Western should concentrate on forming a sub-control area to an existing control area (i.e. SMUD, BPA).

ii. Operational Simplicity

WAPA must keep its operational focus on the customers within the control area. The focus must be on reliability. Western needs to include additional contracts with thermal units in its resource mix; since the CVP is a hydro based resource (dependent on rainfall adequacy as well as subject to environmental constraints).

Modesto appreciates the opportunity to provide comments in this important process. If you should have any questions regarding these comments, please do not hesitate to call me at (209) 526-7550.

Sincerely,

A handwritten signature in cursive script that reads "Mike Kreamer".

Mike Kreamer
Resource Planning and Development Manager
Modesto Irrigation District
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Cc: R. VanHoy
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